

## AGENDA

### COMMITTEE ON AUDIT

**Meeting:** 2:45 p.m., Tuesday, January 22, 2013  
Glenn S. Dumke Auditorium

Henry Mendoza, Chair  
William Hauck, Vice Chair  
Lupe C. Garcia  
Steven M. Glazer  
Hugo N. Morales  
Glen O. Toney

#### Consent Items

Approval of Minutes of Meeting of November 13, 2012

#### Discussion Items

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2013, *Action*
3. Report of the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management, *Information*
4. Single Audit Reports of Federal Funds, *Information*

**MINUTES OF THE MEETING OF  
COMMITTEE ON AUDIT**

**Trustees of The California State University  
Office of the Chancellor  
Glenn S. Dumke Conference Center  
401 Golden Shore  
Long Beach, California**

**November 13, 2012**

**Members Present**

Bob Linscheid, Chair Pro Tempore  
Edmund G. Brown, Jr., Governor  
Lupe C. Garcia  
Steven M. Glazer  
William Hauck  
Peter Mehas, Acting Member  
Charles B. Reed, Chancellor  
Glen O. Toney

Chair Linscheid called the meeting to order.

**Approval of Minutes**

The minutes of the meeting of September 18, 2012, were approved as submitted.

**Status Report on Current and Follow-up Internal Audit Assignments**

Mr. Larry Mandel, university auditor, presented the Status Report on Current and Follow-up Internal Audit Assignments, Agenda Item 1 of the November 13-14, 2012, Board of Trustees agenda.

Mr. Mandel reminded the trustees that updates to the status report are displayed in green numerals and indicate progress toward or completion of outstanding recommendations since the distribution of the agenda. He stated that the campuses are continuing to make excellent progress on the closing of outstanding recommendations within a reasonable time frame. He reported that the long-outstanding recommendation pertaining to Auxiliary Organizations at California State University (CSU), East Bay had been recently completed. He noted that the CSU Chancellor's Office has recommendations pertaining to IT Disaster Recovery and ADA Compliance that are outstanding at eight months; however, as a result of agreements with management, the recommendations are on track to be completed by December 2012 and January 2013, respectively. He further noted that the Office of the University Auditor is currently

working with the CSU Chancellor's Office human resources division in order to complete two of the recommendations pertaining to Academic Personnel by the end of December 2012, with the remaining recommendation being completed within the first quarter of 2013. Mr. Mandel then stated that the audit assignments, including the five construction projects, from the 2012 audit plan are in progress and anticipated completion by the end of the calendar year.

### **Update on Status of Auditor Selection Process**

Dr. Benjamin F. Quillian, executive vice chancellor and chief financial officer, provided an update on the status of the external auditor selection process. He reminded the trustees that the last contract was awarded to KPMG for five years through fiscal year ended 2010-2011 and included three one-year extension options. He added that the original five-year contract was extended for one year to include the audit for the recent fiscal year ended 2011-2012. Dr. Quillian stated that the RFP process was started in September for a new contract for external audit services beginning with the current fiscal year 2012-2013. He explained that the RFP invited responses to two alternatives (a five-year contract or a seven-year contract) in order to determine if the pricing would be significantly more attractive with the longer engagement period. An evaluation team composed of four campus representatives; the CSU university auditor, the CSU assistant vice chancellor/controller; two staff members from the CSU finance department; and one non-voting representative from the CSU procurement department reviewed the five bids that were submitted for consideration. He noted that the evaluation determined that there was little difference in the pricing models for a five-year vs. seven-year engagement; therefore, the team recommended a five-year engagement. Dr. Quillian explained that past practice has been for the evaluation team to conduct final interviews and based on those interviews make a final recommendation to the Committee on Audit. However, he indicated that Trustee Mendoza had requested this update on the auditor selection process and had directed that input from the trustees would be obtained on how the final selection should be conducted. As a result, the current contract with KPMG will be extended for another year to enable the audit process to begin on schedule and to give ample time to revise the process. He stated that this issue would then be discussed at a future Committee on Audit meeting.

The meeting adjourned.

## **COMMITTEE ON AUDIT**

### **Status Report on Current and Follow-up Internal Audit Assignments**

#### **Presentation By**

Larry Mandel  
University Auditor

#### **Summary**

This item includes both a status report on the 2012 audit plan and follow-up on past assignments. For the past year, assignments were made to conduct reviews of Auxiliary Organizations, CSURMA, high-risk areas (Facilities Management, Title IX, Data Center Operations, Identity Management and Common System Access, International Programs), high profile area (Public Safety), core financial area (Cost Allocation), and Construction. In addition, follow-up on past assignments (Auxiliary Organizations, IT Disaster Recovery, ADA Compliance, Sensitive Data Security, and Academic Personnel) is currently being conducted on approximately 20 prior campus/auxiliary reviews. Attachment A summarizes the reviews in tabular form. An up-to-date Attachment A will be distributed at the committee meeting.

### **Status Report on Current and Follow-up Internal Audit Assignments**

#### *Auxiliary Organizations*

The initial audit plan indicated that approximately 314 staff weeks of activity (31.9 percent of the plan) would be devoted to auditing internal compliance/internal control at eight campuses/30 auxiliaries. Four campus/16 auxiliary reviews have been completed, two campus/eight auxiliaries are awaiting a response prior to finalization, and report writing is being completed for two campuses/six auxiliaries.

#### *CSURMA*

The initial audit plan indicated that approximately 12 staff weeks of activity (1.2 percent of the plan) would be devoted to a review at the headquarters office to ensure proper management of the processes for administration of the various risk management programs. Report writing is currently being completed for the headquarters review.

### *High-Risk Areas*

#### Facilities Management

The initial audit plan indicated that approximately 43 staff weeks of activity (4.4 percent of the plan) would be devoted to reviewing cost allocations, deferred maintenance; building and grounds conditions; sustainable building practices; material and equipment inventory; and work order scheduling and control systems. Six campuses will be reviewed. All six reports have been completed.

#### Title IX

The initial audit plan indicated that approximately 43 staff weeks of activity (4.4 percent of the plan) would be devoted to a review of compliance with federal and state laws, trustee policy, systemwide directives, and campus policies and procedures; roles and responsibilities of Title IX coordinators; review of notification requirements; grievance and complaint procedures for students, faculty, staff, and third parties; testing of campus efforts to investigate and resolve complaints; processes to monitor and report gender equity in campus programs including athletics; collection, analysis, and reporting of campus statistics; and the protection of sensitive and confidential information. Six campuses will be reviewed. All six reports have been completed.

#### Data Center Operations

The initial audit plan indicated that approximately 43 staff weeks of activity (4.4 percent of the plan) would be devoted to review of data center operations, including policies, physical security, environmental controls, processing and scheduling controls, backup and recovery processes, and emergency preparations. Six campuses will be reviewed. All six reports have been completed.

#### Identity Management and Common Systems Access

The initial audit plan indicated that approximately 43 staff weeks of activity (4.4 percent of the plan) would be devoted to a review of authorization processes used to validate the identity of users and ensure that users are appropriate, including server security hosting the directory services, the authentication process, and procedures used to create and maintain the user credentials. Six campuses were initially scheduled to be reviewed; due to resource constraints, only five were visited. Three reports await a campus response prior to finalization, and report writing is being completed for two campuses.

### International Programs

The initial audit plan indicated that approximately 43 staff weeks of activity (4.4 percent of the plan) would be devoted to a review of program approvals, fiscal administration and controls; risk management processes; curriculum and credit transfers; utilization of third-party providers; compliance with U.S. Department of State and other regulatory international travel requirements; and processes used to recruit international students, verify student credentials, and provide support on campus. Six campuses will be reviewed. Three reports have been completed, one report awaits a campus response prior to finalization, and report writing is being completed for two campuses.

### *High Profile Area*

#### Police Services

The initial audit plan indicated that approximately 43 staff weeks of activity (4.4 percent of the plan) would be devoted to a review of policies and procedures; compliance with state-mandated standards and training requirements; trained and certified public safety personnel; timely response to incidents; appropriate use of force; approval, control and maintenance over sensitive or special equipment; crime reporting; adjudication of internal investigations or personnel complaints; and unauthorized use of law enforcement data. Six campuses were initially scheduled to be reviewed; due to resource constraints, only five were visited. One report has been completed, one report awaits a campus response prior to finalization, and report writing is taking place at three campuses.

### *Core Financial Area*

#### Cost Allocation

The initial audit plan indicated that approximately 43 staff weeks of activity (4.4 percent of the plan) would be devoted to a review of the development, approval, and maintenance of campus cost allocation plans; recovery of costs; management oversight and approval of plans; indirect rate formation; direct cost capture; and billing and collection processes. Six campuses will be reviewed. All reports have been completed.

### *Construction*

The initial audit plan indicated that approximately 52 staff weeks of activity (5.3 percent of the plan) would be devoted to a review of design budgets and costs; the bid process; invoice

processing and change orders; project management, architectural, and engineering services; contractor compliance; cost verification of major equipment and construction components; the closeout process and liquidated damages; and overall project accounting and reporting. Seven projects will be reviewed. Four reports have been completed, two reports await a campus response prior to finalization, and report writing is being completed for one project.

#### *Compliance Function*

The initial audit plan indicated that approximately 86 staff weeks of activity (8.7 percent of the plan) would be devoted to an initial inventory of compliance activities and owners, and a determination of major areas of compliance risk. The start-up of the compliance function has been suspended as campuses deal with severe reductions in budget resources. The resources allocated to this function will be redirected toward a more robust program of advisory/consultative services within the Office of the University Auditor.

#### *Information Systems*

The initial audit plan indicated that approximately 45 staff weeks of activity (4.6 percent of the plan) would be devoted to technology support for all high-risk and auxiliary audits. Reviews and training are ongoing.

#### *Investigations*

The Office of the University Auditor is periodically called upon to provide investigative reviews, which are often the result of alleged defalcations or conflicts of interest. In addition, whistleblower investigations are being performed on an ongoing basis, both by referral from the state auditor and directly from the CSU Chancellor's Office. Forty-three staff weeks have been set aside for this purpose, representing approximately 4.3 percent of the audit plan.

#### *Special Projects*

The Office of the University Auditor is periodically called upon to provide non-investigative support to the CSU Chancellor's Office/campuses. Ninety-one staff weeks have been set aside for this purpose, representing approximately 9.2 percent of the audit plan.

#### *Follow-ups*

The audit plan indicated that approximately 11 staff weeks of activity (1.1 percent of the plan) would be devoted to follow-up on prior audit recommendations. The Office of the University Auditor is currently tracking approximately 20 prior audits (Auxiliary Organizations, IT Disaster

Recovery, ADA Compliance, Sensitive Data Security, and Academic Personnel) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

*Consultations/Committees*

The Office of the University Auditor is periodically called upon to provide consultation to the campuses and/or to perform special audit requests made by the chancellor. Twenty-four staff weeks have been set aside for this purpose, representing approximately 2.4 percent of the audit plan.

*Annual Risk Assessment*

The Office of the University Auditor annually conducts a risk assessment to determine the areas of highest risk to the system. Four staff weeks have been set aside for this purpose, representing approximately 0.4 percent of the audit plan.

Status Report on Current and Follow-Up Internal Audit Assignments  
 (as of 1/3/2013)

2012 ASSIGNMENTS										
Aux Orgs	Cost Alloc	Title IX	Data Ctr Ops	Facilities Mgmt	Identity Mgmt/Comm Access	Int'l Prog	Police Services	CSURMA		
BAK				AC						
CHI	RW	AC	AC							
CI			AC	AC						
DH	RW		AC				AI			
EB			AC				RW			
FRE							AC			
FUL	AC	AC				AC				
HUM					AI					
LB	AI		AC							
LA		AC				AI				
MA				AC						
MB					AI					
NOR	AI					RW				
POM			AC	AC	RW					
SAC				AC						
SB	AC					RW				
SD		AC			AI		RW			
SF	AC					AC				
SJ		AC		AC						
SLO										
SM		AC			RW		RW			
SON	AC									
STA						AC				
CO										RW
SYS		AI	RW	RW						

FW = Field Work In Progress  
 RW = Report Writing in Progress  
 AI = Audit Incomplete (awaiting formal exit conference and/or campus response)  
 AC = Audit Complete

Status Report on Current and Follow-Up Internal Audit Assignments  
 (as of 1/3/2013)

FOLLOW-UP PAST/CURRENT ASSIGNMENTS											
●No.	Auxiliary Organizations		IT Disaster Recovery		ADA Compliance		Sensitive Data Security/Protection		Academic Personnel		
	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	
BAK	4	16/16	4/4	-							
CHI	3										
CI	3	15/15	7/7	-	4/4	-					
DH	3		4/4	-							
EB	3	21/21	4/4	-				6/6	-		
FRE	6	25/25									
FUL	4	28/28					3/3				
HUM	4	25/25						4/4	-		
LB	3				3/3	-		4/4	-		
LA	4	13/13	1/1	-	4/4	-	1/1				
MA	2	2/4	5/5	-							
MB	2	16/16	4/4	-							
NOR	5		1/1	-				5/5	-		
POM	3	12/12	7/7	-							
SAC	6	36/36	5/5	-			1/1				
SB	3	13/28	3/3	-	5/5	-					
SD	4	24/24			6/6	-	0/0				
SF	5	17/19	6/6	-							
SJ	5	46/47						4/4	-		
SLO	4	12/12					2/2				
SM	3	13/13			4/4	-		4/4	-		
SON	4	0/5		5			8/8				
STA	4	18/18									
CO	2	0/0									
SYS			0/3	10	0/3	10	0/5	7	0/3	9	

\* The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report.  
 \*\* The number of months recommendations have been outstanding.  
 ● The number of auxiliary organizations reviewed.  
 # Represents recommendations that are being held in abeyance pending compliance with new systemwide policies.



## **COMMITTEE ON AUDIT**

### **Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2013**

#### **Presentation By**

Larry Mandel  
University Auditor

#### **Summary**

At the first meeting of the new year, the Committee on Audit selects the audit assignments for the Office of the University Auditor. The following is an audit plan for calendar year 2013.

#### **HIGH RISK AREAS**

The Office of the University Auditor performed a risk assessment of the CSU in the last quarter of 2012. The results of that risk assessment indicated the following six areas of highest risk to the system (the top 20 list is shown in Attachment A):

**Centers and Institutes**  
**International Programs**  
**Sensitive Data Security and Protection**  
**Hazardous Materials Management**  
**Student Health Centers**  
**Conflict of Interest**

Audits will be performed at those campuses where a greater degree of risk was perceived for each of these areas. This represents 259 staff weeks of audit effort, which is approximately 25.2 percent of the audit plan.

#### **HIGH PROFILE AREAS**

Audits are periodically performed of high profile areas in order to assure the board that appropriate policies and procedures are in place to mitigate risk to the system. This year we will address the following area:

### **Sponsored Programs – Post Award**

Of primary concern are the following: contract/grant budgeting and financial planning; indirect cost administration including cost allocation; cost sharing/matching and transfer processes; effort-reporting, fiscal reporting, and progress reporting; approval of project expenditures; sub-recipient monitoring; and management and security of information systems

Audits will be performed at those campuses where a greater degree of risk was perceived for this area. This represents 43 staff weeks of audit effort, which is approximately 4.2 percent of the audit plan.

### **CORE FINANCIAL AREAS**

Audits are periodically performed of core financial areas in order to assure the board that appropriate policies and procedures are in place to mitigate risk to the system. This year we will address the following area:

#### **Credit Cards**

Of primary concern are the following: credit card administration; compliance with campus policies and procedures; approval to use credit cards; monitoring and review of credit card purchases; enforcement of sanctions for misuse; and processes to deactivate credit cards upon employee termination or transfer.

Audits will be performed at those campuses where a greater degree of risk was perceived for this area. This represents 43 staff weeks of audit effort, which is approximately 4.2 percent of the audit plan.

### **AUXILIARY ORGANIZATIONS**

In order to provide assurance to the Board of Trustees that adequate oversight is being maintained over auxiliaries, the Office of the University Auditor administers an audit program covering internal compliance/internal controls. It is estimated that 29 auxiliary reviews will take place during calendar year 2012. This represents 305 staff weeks of audit effort, which is approximately 29.7 percent of the audit plan.

### **ADVISORY SERVICES**

The Office of the University Auditor will partner with management to identify solutions for business issues, offers opportunities to improve the efficiency and effectiveness of operating areas, and assists with special requests, while ensuring the consideration of related internal control issues. Advisory services are more consultative in nature than traditional audits and are

performed in response to requests from campus management. The goal is to enhance awareness of risk, control and compliance issues and to provide a proactive independent review and appraisal of specifically identified concerns. One hundred seventy-one staff weeks have been set aside for this purpose, representing approximately 16.7 percent of the audit plan.

### CONSTRUCTION

Areas under review include design budgets and costs; the bid process; invoice processing and change orders; project management, architectural, and engineering services; contractor compliance; cost verification of major equipment and construction components; the closeout process and liquidated damages; and overall project accounting and reporting. It is estimated that six construction projects will be reviewed during calendar year 2013. This represents 44 staff weeks of audit effort, which is approximately 4.3 percent of the audit plan.

### INFORMATION SYSTEMS

Technology support will be provided for both campus and auxiliary organization audits, in addition to advisory services reviews. Forty-five staff weeks are planned during calendar year 2013, which is approximately 4.4 percent of the audit plan.

### INVESTIGATIONS

The Office of the University Auditor is periodically called upon to provide investigative reviews which are often the result of alleged defalcations or conflicts of interest. In addition, whistleblower investigations are being performed on an ongoing basis, both by referral from the state auditor and directly from the chancellor's office. Forty-three staff weeks have been set aside for this purpose, representing approximately 4.2 percent of the audit plan.

### COMMITTEES

The Office of the University Auditor is periodically called upon to provide consultation to the campuses and/or to participate on committees. Seven staff weeks have been set aside for this purpose, representing approximately 0.7 percent of the audit plan.

### SPECIAL PROJECTS

The Office of the University Auditor is periodically called upon to perform special projects. Fifty staff weeks have been set aside for this purpose, representing approximately 4.9 percent of the audit plan.

### FOLLOW-UPS

The purpose of this category is to follow-up on prior audit recommendations. The Office of the University Auditor reviews the responsiveness of the corrective action taken for each recommendation and determines whether additional action may be required. In certain instances, it may be necessary to revisit the campus to ascertain whether the corrective action taken is achieving the desired results. All recommendations are tracked until each is satisfactorily addressed. Reports of follow-up activity are made at each meeting of the Committee on Audit. Eleven staff weeks have been set aside for this purpose, representing approximately 1.1 percent of the audit plan.

### ANNUAL RISK ASSESSMENT

The Office of the University Auditor annually conducts a risk assessment to determine the areas of highest risk to the system. Four staff weeks have been set aside for this purpose, representing approximately 0.4 percent of the audit plan.

The following resolution is recommended for approval:

**RESOLVED,** By the Committee on Audit of the California State University Board of Trustees that the 2013 internal audit plan, as detailed in Agenda Item 2 of the Committee on Audit at the January 22-23, 2013 meeting, be approved.

### **HIGH RISK AREAS**

The Office of the University Auditor performed a risk assessment of the CSU in the last quarter of 2012. The results of that risk assessment indicated that the following twenty areas are of highest risk to the system:

- |  |   |
|--|---|
| 1. Centers and Institutes                      | 11. Intercollegiate Athletics                         |
| 2. International Programs                      | 12. Employee Relations                                |
| 3. Sensitive Data Security and Protection      | 13. Occupational Health and Safety                    |
| 4. Hazardous Materials Management              | 14. Financial Aid                                     |
| 5. Student Health Centers                      | 15. Endowments  |
| 6. Conflict of Interest                        | 16. Credit Cards                                      |
| 7. Continuing and Extended Education           | 17. Website Maintenance, Security and Vulnerabilities |
| 8. Benefits Administration                     | 18. Network Administration and Management             |
| 9. Sponsored Programs – Post Award             | 19. Trust Fund Accounting                             |
| 10. Americans with Disabilities Act Compliance | 20. Child Care Centers                                |

The following information is not necessarily complete. A complete survey of risks, controls, and associated audit procedures can only be compiled through the audit process. Accordingly, the descriptions should be read with the understanding that they are preliminary and may change after audit survey/work commences.

## **Attachment A**

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### **1. Centers and Institutes**

Centers and Institutes includes a review of campus entities that offer non-credit instruction, information, or other services beyond the campus community, to public or private agencies or individuals.

Potential impacts include:

- activities of each entity do not contribute to the fulfillment of the mission of the CSU and the campus; do not meet accepted standards of academic research; or are not in conformity with all applicable laws and regulations and with CSU and campus risk management policies.
- conflicts of interest by entity directors;
- inappropriate use of state or other external funds;
- allegations of misconduct in research; and
- adverse publicity.

Proposed audit scope would include review of campus policies and procedures for establishing, operating, monitoring, reviewing, and discontinuing centers, institutes, and similar entities; fiscal administration and controls; faculty workload including the potential for conflicts of interest; policies and procedures for identifying and reporting allegations of misconduct in research and other related activities; and campus processes for reporting entity activities including the implementation status of campus policies and procedures to the Chancellor's Office.

### **2. International Programs**

International programs will include a review of CSU students participating in instructional programs abroad and international students and visitors attending the CSU.

Potential impacts include:

- injury of students, faculty, and staff;
- inability to achieve institutional objectives and goals;
- adverse publicity; and
- excessive costs and legal liabilities.

Proposed audit scope would include review of program administration and approvals, fiscal administration and controls; risk management processes; utilization of third-party providers; compliance with U.S. Department of State and other regulatory international travel requirements; and processes used to recruit international students.

### **3. Sensitive Data Security and Protection**

The CSU recently issued guidance on data classification and protection which includes compliance with federal security and confidentiality of records maintained by the campus. In addition, the campuses have identified sensitive and confidential information that must be protected by all parties that are involved with the storage and use of such data, including contractual provisions for protecting data by third-party vendors. Sensitive data can include, but is not limited to, personnel records, credit card information, red flag monitoring and medical records.

Potential impacts include:

- financial exposures;
- legal exposures;
- failure to ensure compliance with all rules and regulations;
- inadvertent/inappropriate disclosure of sensitive data; and
- vendor performance not meeting with contractual expectations.

Proposed audit scope would include review and compliance with trustee policy, federal and state directives, and campus policies and procedures; procedures for handling confidential information; communication and employee training; encryption; tracking and monitoring access to sensitive data; and retention practices of key records. If the sensitive data is maintained by a third party, we would review the involvement of campus information security personnel in the decision process; documentation of campus expectations for handling and securing the data; contract language covering security expectations; and monitoring third-party performance.

### **4. Hazardous Materials Management**

Hazardous materials management involves the proper storage, use and disposal of any material that poses a potential threat to people or the environment. These materials are referred to as HAZMAT and can include, but are not limited to, industrial, chemical, or medical waste.

Potential impacts include:

- injury of students, faculty, and staff;
- environmental damage;
- adverse publicity;
- excessive costs and legal liabilities;
- facilities that present inordinate health risks;
- regulatory fines and sanctions; and
- inability to identify HAZMAT and respond to emergency situations.

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Proposed audit scope would include review of the systems and procedures for controlling the purchase, generation, storage, use and disposal of hazardous materials and wastes; employee training; emergency response plans; reporting requirements; and compliance with federal and state regulations.

### **5. Student Health Centers**

Student health centers includes the provision of basic and augmented health services through campus student health facilities and pharmacy operations.

Potential impacts include:

- substandard medical care;
- inconsistent accessibility;
- erroneous dispensing or theft of pharmaceuticals;
- inadequate health education and staff training;
- excessive costs and fees;
- legal liabilities;
- operational ineffectiveness and inefficiency; and
- unauthorized disclosure of personal information.

Proposed audit scope would include review of compliance with federal and state laws, Trustee policy, and Chancellor's Office directives; establishment of a student health advisory committee; accreditation status; staffing, credentialing and re-credentialing procedures; safety and sanitation procedures, including staff training; budgeting procedures; fee authorization, cash receipt/disbursement controls and trust fund management; pharmacy operations, security and inventory controls; and the integrity and security of medical records.

### **6. Conflict of Interest**

Conflict of interest includes activities of all CSU designated persons including principal investigators, who make or participate in the making of decisions that may foreseeably have a material effect on any financial interest.

Potential impacts include:

- activities or commitments not in the best interest of the CSU;
- inaccurate or incomplete reporting;
- financial improprieties;
- regulatory fines and sanctions; and
- adverse publicity.

Proposed audit scope would include review of the process for identification of designated positions; monitoring, tracking and review of disclosures relating to conflicts of interest, such as research disclosures; faculty and CSU designated officials reporting; employee/vendor relationships; ethics training; and patent and technology transfer.

### **7. Continuing and Extended Education**

Continuing education/extended learning includes special sessions, extension programs, and other self-supporting instructional programs and operation of the Continuing Education Revenue Fund (CERF) and related trust accounts.

Potential impacts include:

- loss of budgetary control;
- inappropriate subsidies;
- inaccurate reporting; and
- increased exposure to enforcement actions by regulatory agencies.

Proposed audit scope would include review of the processes for administration of continuing education and extended learning operations as self-supporting entities; budgeting procedures, fee authorizations, and selection and management of courses; faculty workloads and payments to faculty and other instructors; enrollment procedures and maintenance of student records; and reporting of continuing education activity and maintenance of CERF contingency reserves.

### **8. Benefits Administration**

Benefits administration includes activities pertaining to the provision of employee benefits to new hires, existing employees, and retirees. Such activities include, but are not limited to, provision of benefits to new hires, changes to benefits during open enrollment and/or with life status changes, set-up of employee deductions, communication with vendors, and maintenance and protection of employee records.

Potential impacts include:

- unauthorized, inconsistent, or inappropriate provision of employee benefits;
- inordinate or unnecessary costs; and
- non-compliance with trustee policies, collective bargaining agreements, and federal and state laws and regulations.

Proposed audit scope would include review of the processes for administering CSU benefits to employees including eligibility determinations; timely enrollment in benefit plans; termination or disenrollment from benefit plans; proper coding in human resources systems; compliance with

## **Attachment A**

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trustee policy, collective bargaining agreements, and federal and state laws and regulations; and processes for approving exceptions to policy.

### **9. Sponsored Programs – Post Award**

Post-award administration of contracts and grants includes all sponsored programs, special projects, and activities involving external funding sources (outside of continuing/extended education).

Potential impacts include:

- commitments not in the best interest of the CSU;
- conflicts of interest by principal investigators;
- inadequate/excessive recovery of costs or contribution of matching requirements;
- misuse of funds;
- non-compliance with pertinent grantor/sponsor regulations;
- audit disallowances, regulatory fines and sanctions; and
- failure to provide deliverables.

Proposed audit scope would include review of contract/grant budgeting and financial planning; indirect cost administration including cost allocation; cost sharing/matching and transfer processes; effort-reporting, fiscal reporting, and progress reporting; approval of project expenditures; sub-recipient monitoring; and management and security of information systems.

### **10. Americans with Disabilities Act Compliance**

Americans with Disabilities Act (ADA) includes compliance with federal, state and local rules and regulations which relate to the Americans with Disabilities Act of 1990 (Title 42).

Potential impacts include:

- inaccessible programs, services, and instructional materials;
- legal exposures including regulatory fines and sanctions;
- financial exposures;
- discouragement of qualified individuals from seeking CSU services or employment; and
- damage to the CSU reputation.

Proposed audit scope would include review of compliance with laws and regulations specific to the Americans with Disabilities Act of 1990, such as facility specifications and accommodations, program access, and accessible technology requirements.

## **11. Intercollegiate Athletics**

Intercollegiate athletics includes all activities pertaining to the sports programs administered in accordance with the rules and regulations of the National Collegiate Athletic Association (NCAA), the National Association of Intercollegiate Athletics (NAIA), and the various athletic conferences in which CSU student-athletes and sports teams compete.

Potential impacts include:

- admission of student athletes who do not show reasonable promise of matriculation;
- continuing eligibility of student athletes to participate in intercollegiate athletics based on academic progress that will not assure graduation within a specific time frame;
- infractions of rules and regulations that significantly impact the university in terms of lost revenues, adverse publicity, and sanctions;
- inappropriate use of funds raised and spent in intercollegiate athletics;
- athletics-related personnel actions and settlements; and
- abuse of student-athletes or excessive sports injuries.

Proposed audit scope would include review of sports programs including compliance with athletics conference regulations; admission procedures for student-athletes; student-athlete eligibility certifications; academic performance reporting; administration of student financial aid; compensation and benefits for athletic coaches and staff, procurement/use of athletic apparel and equipment; team travel; athletic event ticketing; student-athlete extra benefits; fiscal administration; and risk management.

## **12. Employee Relations**

Employee relations includes activities involved in negotiating and administering collective bargaining agreements with represented employees; administering the management personnel plan for non-represented employees; and the systems for addressing staff grievances and complaints.

Potential impacts include:

- inordinate costs;
- unfavorable contracts;
- increased exposure to litigation; and
- unfair labor practices.

Proposed audit scope would include review of the administration of collective bargaining agreements and the management personnel plan, including the grievance and compliance process; and implementation of laws and regulations concerning terms and conditions of employment.

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### **13. Occupational Health and Safety**

Occupational health includes oversight of the campus injury and illness prevention program (IIPP), job and workplace conditions, employee health examinations and medical monitoring, health and safety training, work-related accidents, and programs for complying with federal and state occupational regulations.

Potential impacts include:

- injury of staff, faculty, and students;
- non-detection of work-related illnesses;
- regulatory fines and sanctions;
- litigation; and
- excessive workers' compensation costs.

Proposed audit scope would include review of the development, implementation and communication of the campus IIPP; compliance with federal and state health and safety regulations; evaluation and inspection of job and workplace conditions; procedures for required employee health examinations and medical monitoring; provision of health and safety training; investigation, recording, and reporting of work-related accidents; and programs to mitigate perilous working conditions or potential hazards in the workplace.

### **14. Financial Aid**

Financial aid includes programs that assist students in meeting the costs of obtaining a postsecondary education.

Potential impacts include:

- inappropriate financial aid packaging;
- financial aid not provided to the neediest students;
- over-awarding beyond need and funding availability or failing to maximize available funds;
- awarding aid to ineligible students;
- high default rates on student loans;
- excessive costs;
- students not receiving timely award/denial notices;
- reduced service levels; and
- inappropriate disclosure of student personal information.

Proposed audit procedures would include review of financial aid programs, including identifying resources; managing funds; coordinating benefits; securing financial aid applicant information;

packaging awards; and complying with federal and state program requirements, trustee policy, and systemwide directives.

### **15. Endowments**

Endowments includes institutional or university advancement activities pertaining to financial asset donations.

Potential impacts include:

- lower than expected returns;
- inappropriate or overly aggressive asset diversification;
- constituent dissatisfaction with investment performance;
- inaccurate reporting of endowments activity; and
- reputational risk.

Proposed audit procedures would include review of endowment policies; account set-up; donor acknowledgements and communications; processing of distributions; account monitoring and performance evaluation; use of third parties as investment managers; and financial reporting and disclosures.

### **16. Credit Cards**

Credit Cards includes all types of campus credit card programs, whether the cards are corporate-paid or personal liability cards. Examples of cards that might be held on campus include procurement cards, travel cards, declining balance cards, and one-cards.

Potential impacts include:

- credit cards not issued in accordance with campus and CSU policy;
- unauthorized or inappropriate expenditures and misuse of state resources;
- purchases not reconciled and transferred to the general ledger accurately and timely; and
- credit cards not deactivated upon employee transfer or termination.

Proposed audit procedures would include review of credit card administration; compliance with campus policies and procedures; approval to use credit cards; monitoring and review of credit card purchases; enforcement of sanctions for misuse; and processes to deactivate credit cards upon employee termination or transfer.

### **17. Web Site Maintenance, Security and Vulnerabilities**

Web site portals often provide a common method to access multiple disparate application systems that could contain sensitive or protected information. Web site maintenance, security

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and vulnerability includes compliance with federal, state and local rules and regulations pertaining to accessibility, security of protected information, controls over processes used to develop and update Internet-facing systems, and techniques used to test and ensure that systems are not implemented with significant security flaws or subject to known vulnerabilities.

Of primary concern is appropriateness of campus guidance; management control; technical specifications; program code controls; authentication, technical architecture and user acceptance and technical testing. Web application vulnerabilities exist that provide the potential for an unauthorized party to subvert controls and gain access to critical and proprietary information, use resources inappropriately, interrupt business, or commit fraud.

Potential impacts include:

- legal exposures;
- financial exposures;
- inappropriate access;
- unauthorized disclosure of personal information;
- conflicting data management and ownership; and
- damage to the CSU reputation.

Proposed audit scope would include review of authorization processes used to validate users; program code management and testing; server security hosting web systems; use of automated tools to identify and mitigate potential vulnerabilities; and web application development and change management processes and procedures that ensure application security and accessibility is considered during the design phase, testing includes protection against known vulnerabilities, and production servers are adequately protected.

### **18. Network Administration and Management**

Network administration and management includes a review of network configurations, infrastructure and security. It also includes compliance with federal, state and local rules and regulations related to security of protected information. Of primary concern is that the firewall system is sufficient to identify and thwart attacks from the external Internet and filter unwanted network traffic; selected routing and switching devices are properly managed and configured to effectively provide the designated network security or traffic controls; and formal event reporting and escalation procedures are in place for information security events and weaknesses.

Potential impacts include:

- legal exposures;
- financial exposures;
- system availability and continuation; and
- inadvertent/inappropriate disclosure of sensitive data.

Proposed audit scope would include review of network administrative practices including policies, network configuration and segmentation, firewall practices, traffic monitoring and event notification, and evaluation of tools and techniques used to monitor the network health and scan for potential security vulnerabilities.

### **19. Trust Fund Accounting**

Trust fund accounting includes administration of funds outside of the CSU operating fund, such as those used for campus programs and activities, internal service funds, and funds held by campuses in a trustee or agent capacity.

Potential impacts include:

- funds not established and administered in accordance with state and CSU regulations;
- receipts and expenditures not appropriately segregated;
- inadequate monitoring of trust project balances; and
- unauthorized or inappropriate expenditures from trust fund accounts.

Proposed audit procedures would include review of non-CSU operating fund receipts to ensure that accountability and responsibility for campus activities and programs are clearly established; receipts are held in proper accounts; and expenditures are subject to proper approval and administrative control.

### **20. Child Care Centers**

Child care centers assist parents in attaining their educational goals by providing appropriate care for their young children in a convenient and affordable educational setting.

Potential impacts include:

- substandard child care;
- inadequate education and staff training;
- excessive costs, tuition, and fees;
- non-compliance with grant requirements;
- health and safety issues;
- legal liabilities; and
- reputation risk.

Proposed audit procedures would include review of funding sources; licensing and accreditation; staff training; fiscal administration and controls; compliance with federal and state requirements; and risk management issues such as insurance and personnel.

## **COMMITTEE ON AUDIT**

### **Report of the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management**

#### **Presentation by**

Benjamin F. Quillian  
Executive Vice Chancellor and  
Chief Financial Officer

George Ashkar  
Assistant Vice Chancellor/Controller  
Financial Services

#### **Summary**

State law and Federal requirements mandate the California State University be subject to financial statement and compliance audits. Annually, financial statement audits are performed for the CSU System as a whole and all recognized auxiliary organizations. As a result of the change in the state law that became effective beginning with the 2011-2012 fiscal year, the CSU is no longer required to issue individual campus stand-alone financial statements but provide the campus financial information as an addendum to the CSU systemwide financial statements. In addition to the systemwide audits, separate audits are also performed each year on the financial statements of the CSU Systemwide Revenue Bond Program and the CSU Risk Management Authority. All of these financial statement audits are performed by more than 20 CPA firms across the State of California.

The systemwide financial statements for the 2011-2012 fiscal year were issued with an unqualified (i.e., clean) opinion in November, much sooner than mid-December in the past, by applying more streamlined and centralized audit procedures in the absence of the requirement to issue campus stand-alone financial statements. There were no audit findings relating to the preparation of the financial statements. Highlights of the CSU systemwide financial statements will be presented including the impact of state appropriation shortfall, student fees increase, designated and undesignated unrestricted resources, and the impact of passage of Proposition 30 in November, 2012.

In summary, the fiscal year ending June 30, 2012 was a successful year from an audit perspective. All financial reports were completed on or before schedule and received clean opinions. Representatives from KPMG, the systemwide audit firm, will be present to answer questions.

## **COMMITTEE ON AUDIT**

### **Single Audit Reports of Federal Funds**

#### **Presentation by**

Benjamin F. Quillian  
Executive Vice Chancellor and  
Chief Financial Officer

George Ashkar  
Assistant Vice Chancellor/Controller  
Financial Services

#### **Summary**

Federal awards received by the California State University (CSU), including student financial aid, are subject to both compliance and internal control audit procedures as required by Office of Management and Budget Circular A-133.

The CSU A-133 Single Audit Reports were issued ahead of the schedule in November with an unqualified (i.e., clean) opinion. There was one finding (2012-01), which was not a material weakness, relating to internal control over the verification of student aid application information regarding the Federal awards for student financial aid programs received by the CSU. There were no specific compliance issues identified in KPMG's test work other than the campus specific procedural issue as noted in the report.

In summary, the fiscal year ending June 30, 2012 was a successful year from an audit perspective. Representatives from KPMG, the Systemwide audit firm, will be present to answer questions.